Message Text

UNCLASSIFIED

14
ORIGIN EB-07

INFO OCT-01 EA-09 ISO-00 COME-00 L-03 TRSE-00 OMB-01

CIAE-00 INR-07 NSAE-00 STR-04 SP-02 OPIC-06 /040 R

DRAFTED BY EB/IFD/BP:LSALLAN/COMM/PTO:SSCHLOSSER:B,
APPROVED BY EB/IFD/BP:WALTER B. LOCKWOOD
COMM/PTO:MKIRK/LSCHROEDER (SUBS)
EA/PHL:JSARTORIUS
L/EB:JCROOK
---------- 046639
R 162319Z JUL 76
FM SECSTATE WASHDC
TO AMEMBASSY MANILA

UNCLAS STATE 177103

E.O. 11652: N/A

TAGS: EINV, EIND, RP

SUBJECT: REVISION OF PHILIPPINE PATENT LAW

REFS: 1) MANILA 6758; 2) STATE 148212

SUMMARY. USG COMMENTS ON PROPOSED REVISION OF PHILIPPINE PATENT LAW FOLLOW. EMBASSY REQUESTED TO PASS THESE COMMENTS TO GOP.

1. FOLLOWING ARE USG COMMENTS ON THE PROPOSED REVISION OF THE PHILIPPINE PATENT LAW PRESENTLY UNDER CONSIDERATION BY GOP. COMMENTS WERE DRAFTED BY U.S. PATENT AND TRADEMARK OFFICE IN COLLABORATION WITH STATE.

2. MOST SIGNIFICANT PROBLEM IN PROPOSED REVISION IS CONTAINED IN SECTION 35(1) WHICH PERMITS A COMPULSORY LICENSE TO BE GRANTED FOR NON-WORKING OF A PATENTED INVENTION AFTER THE EXPIRATION OF TWO YEARS FROM THE DATE OF THE GRANT OF THE PATENT. THE PHILIPPINES AND THE UNITED STATES ARE
UNCLASSIFIED

UNCLASSIFIED

BOTH PARTIES TO, AND MUTUALLY BOUND BY, THE PARIS CONVEN-

TION FOR THE PROTECTION OF INDUSTRIAL PROPERTY, AS REVISED AT LISBON, OCTOBER 31, 1958. ARTICLE 5, PARAGRAPH A(4) OF THAT CONVENTION PROVIDES THAT "AN APPLICATION FOR A COMPULSORY LICENSE MAY NOT BE MADE ON THE GROUND OF FAILURE TO

WORK OR INSUFFICIENT WORKING BEFORE THE EXPIRATION OF A PERIOD OF FOUR YEARS FROM THE DATE OF FILING OF THE PATENT APPLICATION OR THREE YEARS FROM THE DATE OF THE GRANT OF THE PATENT, WHICHEVER PERIOD LAST EXPIRES; IT SHALL BE REFUSED IF THE PATENTEE JUSTIFIES HIS INACTION BY LEGITIMATE REASONS." CLEARLY THE PROVISIONS OF SECTION 35(1) OF THE PROPOSED REVISION ARE INCONSISTENT WITH THE REQUIREMENTS OF THE CONVENTION. WE BELIEVE THAT THE EXISTENCE OF A PROVISION SUCH AS SECTION 35(1) WHICH DOES NOT MEET THE PHILIPPINES TREATY OBLIGATIONS REGARDING INDUSTRIAL PROPERTY PROTECTION MAY RESULT IN DISCOURAGING FOREIGN AND DOMESTIC FIRMS FROM FILING FOR PATENT PROTECTION OR MAKING INVESTMENTS IN INDUSTRIES, THE VIABILITY OF WHICH DEPENDS ON ADEQUATE INDUSTRIAL PROPERTY PROTECTION. THIS IN TURN MAY RETARD THE FLOW OF TECHNOLOGY TO THE PHILIPPINES.

3. SECTION 34-A(2) ESTABLISHES A ROYALTY CEILING FOR VOLUNTARY LICENSING ARRANGEMENTS OF FIVE PERCENT OF THE "NET WHOLESALE PRICE" OF THE PATENTED ARTICLE. IF THE ARTICLE SHOULD BE MADE UNDER THE PATENTS OF MORE THAN ONE LICENSOR, THE FIVE PERCENT ROYALTY MUST BE PRORATED AMONG THEM. IT SHOULD BE NOTED THAT SUCH A LOW ROYALTY CEILING COULD POSSIBLY DISCOURAGE INVENTORS AND BUSINESSMEN FROM LICENSING THEIR INVENTIONS IN THE PHILIPPINES. BEFORE A PATENT OWNER WILL LICENSE PATENTED TECHNOLOGY, HE MUST BE ABLE TO CHARGE A ROYALTY ADEQUATE TO RECOUP THE COSTS OF DEVELOPING AND COMMERCIALIZING THE INVENTION AND ALSO PROVIDE A REASONABLE PROFIT. A FIVE PERCENT ROYALTY WILL NOT NECESSARILY BE ADEQUATE FOR THESE ENDS, ESPECIALLY FOR THE NEWEST, MOST SOUGHT-AFTER TECHNOLOGY. ANY INCENTIVE TO LICENSE TECHNOLOGY WILL BE FURTHER IMPAIRED IF A PATENTEE IS FORCED TO DIVIDE A LOW ROYALTY WITH OTHER PATENTEES.

UNCLASSIFIED

UNCLASSIFIED

4. WHILE WE SYMPATHIZE WITH THE OBJECTIVE OF ACHIEVING REASONABLE RATES, IT IS OUR BELIEF THAT A FIXED AND MANDATORY CEILING IS NOT IN THE BEST INTEREST OF THE SUPPLIER OR RECIPIENT. WE FEEL THAT THIS IS BASICALLY A MATTER TO BE DETERMINED BY THE PARTIES PURSUANT TO NORMAL NEGOTIATION AND CONTRACTUAL AGREEMENTS. LICENSED TECHNOLOGY IS SUBJECT TO NUMEROUS AND VARIED ECONOMIC FACTORS AND THEREFORE IS ENTIRELY TOO COMPLEX TO SUBJECT TO FIXED RATES.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

FOR ALL OF THESE REASONS WE BELIEVE SECTION 34-A(2) COULD ACT AS A SERIOUS DISINCENTIVE TO TECHNOLOGY TRANSFER.

5. SECTION 34-C(1) APPEARS TO GRANT TO LICENSEES THE RIGHT TO EXPLOIT THE INVENTION THROUGHOUT THE PHILIPPINES, FOR THE ENTIRE TERMS OF THE PATENT, FOR ALL APPLICATIONS.

SUCH RIGHTS ARE USUALLY DETERMINED BY NEGOTIATIONS BETWEEN THE LICENSOR AND THE LICENSEE. THE AUTOMATIC, STATUTORY GRANTING OF THESE RIGHTS DEPRIVES BOTH PARTIES OF THE OPPORTUNITY TO UTILIZE SOME COMMONLY-ACCEPTED LICENSING LIMITATIONS WHICH MAY ENHANCE THE ATTRACTIVE-NESS OF THE OVERALL CONTRACT PACKAGE FOR BOTH SIDES. FOR EXAMPLE, SOME LICENSEES MAY PREFER NOT TO OBTAIN ALL OF THE RIGHTS GRANTED BY THIS SECTION AND THEREBY OBTAIN THE TECHNOLOGY AT A CHEAPER PRICE. ALSO, LICENSORS MAY BE RELUCTANT TO GRANT LICENSES UNDER SUCH PREDETERMINED CONDITIONS.

6. SIMILARLY, SECTION 34-C(2) WOULD BY STATUTE MAKE NULL AND VOID CLAUSES IN LICENSE CONTRACTS WHICH IMPOSED RESTRICTIONS NOT DERIVED FROM THE PATENT. WHILE IT IS NOT CLEAR WHAT RESTRICTIONS WOULD BE PROHIBITED UNDER THIS SECTION, WE NOTE THAT VARIOUS LICENSING LIMITATIONS ARE FREQUENTLY UTILIZED IN LICENSE CONTRACTS AND MANY ARE IN THE BEST INTEREST OF BOTH THE LICENSOR AND THE LICENSEE. THE OUTRIGHT PROHIBITION OF SUCH LIMITATIONS MAY SERVE TO INCREASE THE COST OF THE LICENSED TECHNOLOGY OR, IN SOME CASES, CURTAIL ITS TRANSFER ALTOGETHER. INSTEAD OF A COMPLETE PROHIBITION ON LICENSE LIMITATIONS NOT DERIVED FROM THE PATENT GRANT, WE BELIEVE THE PHILI-PPINES WOULD BE BETTER SERVED BY PROHIBITING THOSE ABUSIVE RESTRICTIONS WHICH ARE GENERALLY RECOGNIZED AS UNREASON-UNCLASSIFIED

UNCLASSIFIED

PAGE 04 STATE 177103

ABLE, FOR EXAMPLE UNJUSTIFIED TIED SALES, ARBITRARY AND COERCIVE PACKAGE LICENSING OR UNJUSTIFIABLE, ANTICOMPETI-TIVE GRANT-BACK CLAUSES.

7. IT IS NOT CLEAR EXACTLY HOW FAR-REACHING SECTION 35-B (1) WOULD BE IN PRACTICE. HOWEVER, IT MAY CALL FOR THE COMPULSORY LICENSING OF ANY PATENT INVOLVED IN AN INDUS-TRIAL PROJECT APPROVED BY THE BOARD OF INVESTMENTS, EVEN IF THE PATENTED INVENTION IS ALREADY BEING WORKED IN THE PHILIPPINES BY ANOTHER PARTY. THIS POSSIBILITY OF COMPUL-SORY LICENSING WOULD BE A CLEAR DISINCENTIVE TO INVESTORS IN CERTAIN TYPES OF INDUSTRIES.

8. WE ARE NOT SURE HOW THE LAST SENTENCE OF SECTION 35-B (2) WILL WORK IN PRACTICE. SUPPOSE THE BOARD OF INVEST-

MENTS APPROVES THE MANUFACTURE OF AN ARTICLE SUBJECT TO BOTH A BASIC PATENT AND AN IMPROVEMENT PATENT. WILL THE ARTICLE BE CONSIDERED TO BE COVERED BY BOTH PATENTS, OR ONLY BY THE IMPROVEMENT PATENT? IF THE INVENTION IS CONSIDERED TO BE COVERED BY BOTH PATENTS, AS WE THINK IT MUST, WE DO NOT UNDERSTAND HOW A LICENSE CAN BE GRANTED ONLY UNDER THE BASIC (THE OLDEST SUBSISTING) PATENT. WE BELIEVE THE INTERESTS OF BOTH PATENTEES SHOULD BE PROTECTED.

9. SECTION 36-E(1) PERMITS A LICENSEE TO PRACTICE AN INVENTION FREE FROM ANY CHARGE OF INFRINGEMENT, EVEN IF HIS LICENSOR IS NOT THE RIGHTFUL OWNER OF THE PATENT. THE PROVISION ALSO SAYS THAT THE RIGHTFUL OWNER OF THE PATENT MAY RECOVER ROYALTIES PAID TO THE LICENSOR. DOES THIS PROVISION MEAN THAT THE RIGHTFUL OWNER OF THE PATENT WILL BE BOUND BY THE TERMS OF A LICENSE NEGOTIATED AND ENTERED INTO BY SOMEONE ELSE?

10. THE MEANING OF SECTION 36-E(2) IS NOT CLEAR AS TO PRECISELY WHAT ACTIONS WOULD CONSTITUTE A VIOLATION OF THIS PROVISION OR WHY HARSH CRIMINAL PENALTIES ARE NECESSARY.

11. FOREGOING COMMENTS ADDRESS MAJOR PROBLEM AREAS OF PROPOSED PATENT LAW REVISION. EMBASSY IS REQUESTED TO PASS THESE COMMENTS ON TO GOP IN MANNER MOST APPROPRIATE, UNCLASSIFIED

UNCLASSIFIED

PAGE 05 STATE 177103

E.G. BY DIPLOMATIC NOTE OR BY DISCUSSIONS WITH PROPER GOP OFFICIALS. FURTHER REPORTING ON GOP REACTION TO OUR COMMENTS AND PROSPECTS FOR LAW'S ENACTMENT WOULD BE APPRECIATED. KISSINGER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AMENDMENTS, PATENT LAW, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE177103
Document Source: CORE
Document Unique ID: 00
Drafter: LSALLAN/COMM/PTO:SSCHLOSSER:B,
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760276-0163
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760749/aaaabqlb.tel
Line Count: 205
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 MANILA 6758, 76 STATE 148212
Review Action: RELEASED, APPROVED
Review Authority: hackerp0
Review Comment: n/a
Review Content Flags:
Review Date: 19 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 APR 2004 by ThomasVJ>; APPROVED <31 JAN 2005 by hackerp0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVISION OF PHILIPPINE PATENT LAW
TAGS: EINV, EIND, RP
To: MANILA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006